

Thoughts on College Funding

In today's fast-changing, technology-driven world, a job at the upper end of the growing service sector will require an education beyond high school—either a college education or specialty higher education training.

The second largest population swell in U.S. history—close to 70 million people—will follow Generation X. With so many people, the best job opportunities may go to the well-educated. While higher education is a great investment for parents, it can be prohibitively expensive.

The Cost of Education

Given the magnitude of future college expenses and the generally low U.S. savings level in accessible funds, many couples with children under age 5 may need to save between \$300 and \$700 a month to accumulate enough college funds. Those with older children and a shorter accumulation window will have to save more. College costs have risen continuously for over two decades, outstripping changes in the Consumer Price Index. With rising inflation, expect overall basic college costs besides tuition (food, housing, books, etc.) to rise as well.

Average College Costs

2022–2023 Academic Year

Annual tuition and fees at four-year institutions

- ▶ Public colleges and universities: \$10,950 (in-state), \$28,240 (out-of-state)
- ▶ Private colleges and universities: \$39,400

Annual student budgets (tuition, room and board, transportation, and other expenses)

- ▶ Public four-year colleges and universities: \$27,940 (in-state resident students)
- ▶ Private four-year colleges and universities: \$57,570 (resident students)

The College Board, Trends in College Pricing: 2022



Is it surprising that young families are concerned about how they will manage to accumulate the funds they need? Here are some suggestions.

1. Determine how much of the cost you will assume.

Most parents put a high priority on supporting their children and preparing them for successful adulthood. However, philosophies differ on how much responsibility parents should assume for their children's higher education expenses. Parents may want their children to earn part of their expenses or depend partially on scholarships. *Key Questions:*

- ▶ What dollar amount do you feel you can accumulate?
- ▶ What methods do you believe will best accomplish your college education accumulation goal?

2. Determine the yearly college payout.

When one or more children are involved, parents must consider when the college expenses will occur and the extent of overlap if more than one child is in college at the same time. *Key Questions:*

- ▶ Given that there may be an overlap in expenses due to your children's ages, where can you save and invest to allow you access to funds when needed?
- ▶ Do you wish to set up separate accounts for each child, or accumulate one large pot of money?

3. Put emphasis on how to afford. Rather than putting an emphasis on which college a child will attend, focus your attention on how you will afford for your children to go. *Key Questions:*

- › What type of school would you prefer they attend?
- › How far away from home is too far?

4. Calculate a monthly savings objective. You must fully understand what college or higher education might cost. *Key Questions:*

- › Were you aware that the expenses might be so much in the future? How do you feel about the costs?

How Much Does College Really Cost?

Are “average” college costs a true guide to what I can expect to pay? Won’t my child qualify for some financial aid? The average net cost of attendance (the “all in” cost) for 2022–23 of a four-year public college is about \$19,250 per year and about \$32,800 for a private nonprofit college.¹

Of course, you still have to multiply that by the number of years of school and add an inflation adjustment. Even then, these numbers are averages; some students are getting a lot more aid while others are getting much less.

To help come up with a more realistic cost of college far in advance of the first payment, parents should try to understand how the financial aid calculations work and what their financial position is likely to be when the child is ready for college. Look at different college websites, talk to high school counselors, fill out the federal financial aid form; fortunately, there are several online resources available.

While no one knows how much college will cost until it is too late, advance research and planning will enable parents to come up with a more realistic approach to the cost of college.

- › Are you willing to adjust your current spending levels to commit to the monthly investment needed?
- › Should you consider a plan that will meet your funding needs whether you live, die, or become disabled?

5. Build flexibility into your plan. All families experience emergencies at one time or another; thus, it’s prudent to build liquidity and diversity into your overall accumulation programs. *Key Questions:*

- › Are you more interested in a savings and investment approach that offers a reasonable risk—or one that may offer a high return but in which you could also lose all your money?
- › How important is flexibility and liquidity, or access to your money?

6. Don’t count on government forgiveness.

Although forgiveness of federal student loan debt has been widely reported in the press, don’t count on it as part of your budgeting and planning. Like bonuses from an employer, assume your child’s loan won’t be paid by the federal government and plan accordingly.

Funding Solutions

Because of its characteristics, the death benefit of life insurance can be an option to help fund college expenses in the event the parents die. Generally, life insurance values are not counted as a resource with determining eligibility for financial aid. Also, the life insurance can help supplement other education funding methods such as education savings accounts and qualified state tuition savings plans.

In Summary

Funding for higher education may take multiple resources. Life insurance could be a part of the equation.

Contact your Lafayette Life financial professional for more information.

¹ *The College Board, Trends in College Pricing, 2022* (pp 18-19). “Net cost of attendance” is what the student and/or family must cover after grant aid is subtracted and includes tuition, fees, room and board, transportation, books, supplies and other personal expenses.

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